MID SUFFOLK DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: MCa/19/64**
FROM:	**Councillor John Whitehead, Cabinet Member for Finance**	**DATE OF MEETING: 6 July 2020**
OFFICER:	**Gavin Fisk, Assistant Director, Housing** **Sharon Bayliss, Senior Finance Business Partner**	**KEY DECISION REF NO. CAB197**

HOUSING REVENUE ACCOUNT FINANCIAL OUTTURN 2019/20

1. PURPOSE OF REPORT

1.1 This report summarises the 2019/20 financial outturn for the Housing Revenue Account and Capital Programme.

1.2 This is subject to the external auditors' report on the Statement of Accounts for the year, which will be presented to the Joint Audit and Standards Committee later in the year once the audit is complete.

2. OPTIONS CONSIDERED

2.1 Transfer funds of £1.396m to the Strategic Priorities earmarked reserve.

2.2 To recommend the carry forward of £8.319m HRA Capital costs.

3. RECOMMENDATIONS

3.1 That the 2019/20 financial outturn as set out in this report be noted.

3.2 That the transfer of £1.396m, being the HRA surplus for the year (£1.815m more than planned) per paragraph 5.5, to the Strategic Priorities Reserves be approved.

3.3 That the HRA Capital carry-forward requests referred to in paragraphs 5.12 and 5.13 of this report totalling £8.319m be approved.

REASON FOR DECISION

To ensure that Members are kept informed of the outturn position for both Housing Revenue and Capital and to approve earmarked reserve transfers and carry forward requests.

4. KEY INFORMATION

Strategic Context

4.1 The financial position of the HRA for 2019/20 should be viewed in the context of the updated 30-year business plan. A balanced budget has been achieved for 2019/20 by reducing both capital and revenue budgets and withdrawing money from reserve.

4.2 A fundamental review of the housing service was undertaken during 2018/19 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The business plan sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.

4.3 The Welfare Reform and Work Act 2016 requiring all social landlords to reduce rents by 1% each year ends in March 2020. This means rents can increase by Consumer Price Index (CPI) +1% for five years from April 2020, which will reduce the impact of the 1% reduction on the 30-year plan.

4.4 With the Council's housing stock at 3,299 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year. Members should therefore consider annual variances in the context of the medium-term outcomes that the Council wishes to achieve.

4.5 Towards the end of 2019/20 the Covid-19 global pandemic escalated and from mid-March the country went into lockdown. This has had a significant impact on the Council's finances, including both additional costs – revenue and capital and loss of income.

4.6 The impact in 2019/20 was minimal. The impact in 2020/21 and beyond will be far more significant and depending upon the final level of support offered by the Government, significant actions may need to be taken to ensure financial sustainability in the long-term.

4.7 A lot of work has been and continues to be undertaken to quantify the impact of the emergency on the Council's finances, but there are many unknown aspects that will only become clearer as time progresses. The impact will be monitored and reported as part of the budget monitoring reports to Cabinet during 2020/21, with any in-year actions that are required and will form a significant part of the considerations for the budget for 2021/22 and the updated Medium Term Financial Strategy. It is intended that work will take place between June and September 2020 to review the current HRA Business Plan and to develop a revised plan in response to the financial impact of Covid-19 and the long-term ambitions of the housing service.

4.8 Based on the assumptions and information that we currently have and the money that has been received to date from the Government, it appears that we have sufficient money in reserves to achieve a balanced position for 2020/21, but this will be carefully monitored throughout the year.

5. 2019/20 Outturn Position

5.1 The report covers:

- The Housing Revenue Account (HRA) Revenue Budget
- The Housing Revenue Account (HRA) Capital Programme

5.2 Budget monitoring is a key tool and indicator on the delivery of the Council's plans and priorities for the year. There will, of course, always be reasons why there are variances such as:

- Economic conditions and those services that are affected by demand.

- Base budgets being over or understated (a number were identified in the 2018/19 financial outturn report to Members).

- Uncertainties relating to funding or other changes that were not known at the time the budget was approved.

5.3 Taking each area in turn, the position on key aspects of the 2019/20 budget is summarised below:

Revenue

5.4 The original budget set for the HRA for 2019/20 shows a deficit of £419k, which was met by reserves to achieve a balanced budget position. The final position for 2019/20 is a surplus of £1.396m, a favourable variance of £1.815m.

The variances identified within this report have also been taken into consideration when setting the budgets for 2020/21.

5.5 The main items that are included in the overall favourable variance of £1.815m are detailed in the text and tables below:

	Budget	**Actual**	**Variance Adverse / (Favourable)**
	£'000	**£'000**	**£'000**
Dwelling Rents	(14,154)	(14,142)	12
Service Charges	(671)	(658)	13
Non Dwelling Income	(389)	(375)	14
Other Income	(8)	(14)	(5)
Interest Received	(8)	(16)	(8)
TOTAL INCOME	**(15,230)**	**(15,204)**	**26**

Housing Management	2,995	3,678	683
Responsive Repairs and Maintenance	1,836	2,380	544
Property Services	1,284	1,364	79
Depreciation	3,709	3,567	(142)
Interest payable	2,912	2,678	(234)
Revenue Contribution to Capital	2,827	133	(2,694)
Transfer to reserves / (from reserves)	-	9	9
Bad Debt Provision	86	-	(86)
TOTAL EXPENDITURE	**15,649**	**13,808**	**(1,841)**
SURPLUS FOR 2019/20	**419**	**(1,396)**	**(1,815)**

5.6 Further explanations of the variances are provided below:

a) Housing Management – an adverse variance of £475k

There are a number of items that make up the adverse variance of £475k, they can be broken down as follows:

- The income budgets allocated for the recharging of surveyors time for works carried out in the General Fund, capital projects and elsewhere within the HRA is shared equally (50:50) across the two Councils. Analysis of surveyors timesheets has shown that the actual amount of

hours charged to capital projects, the General Fund and elsewhere within the HRA is lower for MSDC (18%) which means that the income generated from these hours is also lower resulting in an adverse variance of £203k.

- Premises related expenses including communal heating charges (£135k), fire prevention (£70k), sub-contractor costs (£48k) and business rates for Needham Market Middle School (£33k).
- To ensure that homes at Harleston Corner met Council standards, a significant amount of work was required. It was not possible to carry out these repairs with tenants in situ and so they were relocated resulting in compensation payments of £30k.
- Annual license and maintenance fee for the Open Housing system - an adverse variance of £35k as this was previously a corporate recharge and is now paid for directly from the HRA.
- A favourable variance of £68k for repairs to communal areas, can partially mitigate the adverse variances listed above.

b) Responsive Repairs and Maintenance – an adverse variance of £553k

The main items that make up the adverse variance are broken down as follows:

- The use of sub-contractors to complete responsive repairs, void works and installation works has resulted in an adverse variance of £348k.
- An adverse variance of £316k for premises expenses due to a higher than expected number of repairs and voids completed.
- Consultant and professional fees associated with the Building Services review has resulted in an adverse variance of £31k.
- Favourable variances of £81k for employee costs (vacancies), £33k for tools and equipment and other smaller variances totalling £41k, can help mitigate the adverse variances mentioned above.

c) Property Services – an adverse variance of £79k

The main items that make up the adverse variance are broken down as follows:

- Asbestos surveys – the increased need for surveys has resulted in an adverse variance of £90k.
- Whole House Servicing Contract (WHS) - an adverse variance of £84k. Work is currently taking place with Blue flame (our Whole house servicing contractor) to understand how the current contract could be developed to:
  - Enable innovation and service delivery development over the remaining term of the contract
  - Increase predictability of outturn cost
  - Incentivise joint working
- Works associated with asbestos removals has resulted in an adverse variance of £43k.
- A favourable variance of £102k for external painting as works deferred to 2020/21.
- Renewable Heating Incentive (RHI) - a greater number of properties were eligible for the scheme and so a favourable variance of £22k has been achieved.

- A favourable variance of £15k relating to employee costs (surveyor and engineers), can help to mitigate those adverse variances mentioned above.

e) Interest Payable – a favourable variance of £234k

- Lower than anticipated interest charged on loans has resulted in a favourable variance of £234k for the year.

f) Revenue Contribution to Capital – a favourable variance of £2.694m

- The slippage in the 2019/20 HRA Capital Programme as detailed in sections 5.12 and to 5.13 below, has resulted in a reduced financing requirement. The major repairs reserve has been called upon first meaning that the revenue contribution required is significantly less than budget.

g) Bad Debt Provision – a favourable variance of £86k

- Analysis of rent arrears and the HRA Business Model shows that there are sufficient funds within the bad debt provision and so no need for an increase for 2019/20 resulting in a favourable variance of £86k.

5.7 The net £1.396m favourable position means that the total HRA balances as at 31 March 2020 are £6.846m. A breakdown of the HRA earmarked reserves is attached at Appendix B of this report.

Capital

5.8 Use of capital and one-off funds is critical and needs to be linked into our future delivery plans. A zero-based approach was adopted for the capital programme for 2019/20 to ensure that resources are aimed at delivering the council's strategic priorities.

5.9 With complex capital schemes it is difficult to accurately assess the level of payments that will be made during a particular financial year. The Council continues to embark on new projects e.g. building new homes, where it is difficult to accurately predict at the planning stage how payments will fall. Members should therefore focus on whether overall outcomes are being achieved as a result of the capital investment rather than variances against the plan for a particular year

5.10 Actual capital expenditure for the period April 2019 to March 2020 totals £4.458m, against the budget (including carry forwards) of £12.935m, as set out in Appendix A. The outturn shows a net favourable variance of £158k (after carry-forward requests) as summarised in the table below and is described further in sections 5.12 and 5.13.

	£'000
Capital Programme	**12,935**

Actual expenditure	4,458
Contractual commitments as at 31 March 2020 (see paragraph 5.12 below)	7,484
Carry forward requests (see paragraph 5.13 below)	835
Total expenditure, commitments and carry- forward requests	**12,777**
Net capital programme favourable variance	**(158)**

5.11 The majority of the £158k favourable variance can be attributed to ICT – projects. There are now a number of projects identified for 2020/21 including a new text messaging service and technology to help support our housing tenants remotely.

5.12 Contractual commitments are detailed in the table below. These funds were committed in 2019/20 and will be spent in 2020/21. Resources to finance the capital expenditure e.g. capital receipts will also transfer from 2019/20 into 2020/21.

Contractual Commitments as at 31 March 2020	**(£'000)**
New Build programme including acquisitions	7,168
Planned maintenance	316
Total	**7,484**

5.13 The remainder represents plans or aspirations for investment, for which a carry forward to 2020/21 is requested along with the appropriate capital resources to fund this. It is proposed that the capital resources are carried forward into 2020/21 and reviewed as part of the Corporate Plan to assess whether it meets the objectives to build new homes and make the best use of our existing assets.

Carry forwards as at 31 March 2019	**(£'000)**
New Build programme including acquisitions	562
Planned maintenance	201
ICT projects	50
Environmental improvements	22
Total	**835**

6. LINKS TO THE CORPORATE PLAN

6.1 Ensuring that the Councils make best use of their resources is what underpins the ability to achieve the priorities set out in the Corporate Plan. Specific links are to financially sustainable Councils, managing our housing assets effectively, and property investment to generate income.

7. FINANCIAL IMPLICATIONS

7.1 These are detailed in the report.

8. LEGAL IMPLICATIONS

8.1 There are no specific legal implications.

9. RISK MANAGEMENT

9.1 This report is most closely linked with the Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
If we fail to spend retained RTB receipts within 3-year period, then it will lead to requirement to repay to Government with an additional 4% interest.	Unlikely - 2	Bad - 3	Provision has been made in the updated HRA Investment Strategy to enable match funding and spend of RTB receipts.
If we borrow too much to fund New Homes, we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the CIPFA Prudential Code which states Capital investment plans must be affordable, prudent and sustainable.
If Brexit has a negative impact on the Economy, then interest rates/inflation/house prices and demand/jobs could be impacted.	Probable - 3	Bad - 3	Understanding and acting on intelligence from the Local Government Association (LGA) and CIPFA.
If capital data is inaccurate it could lead to	Unlikely - 2	Bad - 3	Work closely with treasury management when setting

Risk Description	Likelihood	Impact	Mitigation Measures
problems with treasury management debt and cashflows.			capital budgets and how this will be financed. Monitor the capital spend quarterly and raise any changes with treasury management.

10. CONSULTATIONS

10.1 Consultations have taken place with the Assistant Director, Corporate Managers and other Budget Managers as appropriate

11. EQUALITY ANALYSIS

11.1 An equality analysis has not been completed because there is no action to be taken on service delivery as a result of this report.

12. ENVIRONMENTAL IMPLICATIONS

12.1 With the Council's ambition to become carbon neutral by 2030, all budget holders will need to consider the environmental implications of how their revenue and capital budgets are spent.

13. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached
APPENDIX B – Earmarked Reserves	Attached

14. BACKGROUND DOCUMENTS

21 February 2019 Housing Revenue Account (HRA) Budget and Four-year Outlook Report 2019/20 – MC/18/39

28 August 2019 Housing Revenue account (HRA) Financial Monitoring - Quarter 1 MCa/19/15

12 December 2019 Housing Revenue account (HRA) Financial Monitoring - Quarter 2 (sent electronically)

9 March 2020 Housing Revenue account (HRA) Financial Monitoring - Quarter 3 MCa/19/43

APPENDIX A

Capital Programme

MID SUFFOLK CAPITAL PROGRAMME 2019/20 HOUSING REVENUE ACCOUNT	Original Budget £'000	Current Budget £'000	Actual Spend £'000	Contractual Commitments £'000	Uncommitted Carry Forwards £'000	Variance after Carry Forwards (favourable) /adverse £'000	Explanation of movement
Planned maintenance	3,073	3,682	3,152	316	201	**(13)**	
ICT Projects	200	200	-	-	50	**(150)**	Projects identified for 2020/21 include a new text messaging service and technology to help support our housing tenants remotely.
Environmental Improvements	30	30	8	-	22	**(0)**	
Disabled adaptions to council dwellings	200	266	283	-	-	**17**	
New build programme inc acquisitions	8,757	8,757	1,015	7,168	562	**(12)**	
Total HRA Capital Spend	**12,260**	**12,935**	**4,458**	**7,484**	**835**	**(158)**	

APPENDIX B

Earmarked Reserves

	Balance at 1 April 2019	Transfers to	Transfers from	Balance at 31 March 2020
Working Balance	(1,209)			(1,209)
Strategic Priorities Reserve	(4,204)	(1,396)		(5,600)
Building Council Homes Programme (BCHP) Reserve	(20)			(20)
Leaseholder Reserve	(8)	(9)		(17)
TOTAL RESERVE BALANCES	**(5,441)**	**(1,405)**	**-**	**(6,846)**